

**STATE OF UTAH INSURANCE DEPARTMENT**

**REPORT OF EXAMINATION**

**OF**

**SENTINEL SECURITY LIFE INSURANCE COMPANY**

**OF**

**SALT LAKE CITY, UTAH**

**as of**

**December 31, 2000**

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July 5, 2002

Honorable Alfred W. Gross, Chairman  
NAIC Financial Condition (EX4) Subcommittee  
Commissioner of Insurance  
Bureau of Insurance  
Commonwealth of Virginia  
P. O. Box 1157  
Richmond, Virginia 23218

Honorable Joel S. Ario  
Secretary, Western Zone, NAIC  
Insurance Administrator  
Oregon Insurance Division  
350 Winter Street NE, Room 440  
Salem, Oregon 97310-3883

Honorable Merwin Stewart  
Insurance Commissioner  
State of Utah  
State Office Building, Room 3110  
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (UCA) Section 31A-2-203, an examination has been conducted as of December 31, 2000, of the financial condition and affairs of

**SENTINEL SECURITY LIFE INSURANCE COMPANY**  
**Salt Lake City, UT 84115**

a stock life insurance company, hereinafter referred to as the Company, and the following report of examination is respectfully submitted.

**Scope of Examination**

**Period Covered by Examination**

The Company was last examined as of December 31, 1997, by an examiner representing the Insurance Commissioner of the State of Utah. The current examination included the three year period through December 31, 2000, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

**Examination Procedure Employed**

All phases of the examination were conducted to determine compliance with generally accepted regulatory accounting and valuation standards and procedures promulgated by the National Association of Insurance Commissioners (NAIC), applicable laws of the State of Utah and insurance rules promulgated by the State of Utah Insurance Department. A certificate of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities was obtained from management. Workpapers of the Company's independent auditor for the year ended December 31, 2000, were reviewed.

Reliance was placed on work performed by the independent auditor, subject to testing, in the areas of mortgage loans, bonds and stocks.

**Status of Adverse Findings, Material Changes in the Financial Statement and Other Significant Regulatory Information Disclosed in the Previous Examination**

The prior examination found the Company had no audit committee as required under UCA Subsection 31A-5-412(2)(a). The Company still had no audit committee as of December 31, 2000, as required.

The prior examination found the Company had inadequate fidelity bond coverage in accordance with the NAIC fidelity bond exposure test. The Company had adequate coverage as of December 31, 2000.

**History**

**General**

The Company was incorporated in the State of Utah on March 18, 1948, under the name "Sentinel Mutual Insurance Company". The Company was granted a certificate of authority in July 1948 to conduct a life insurance business as a mutual benefit insurer. The Company's organization was sponsored by the Funeral Directors' and Embalmers' Association of Utah.

The articles of incorporation were amended July 16, 1954, changing the name of the Company to Sentinel Security Life Insurance Company. The Company also converted to a stock corporation at this same time.

**Capital Stock**

Authorized common stock consisted of 500,000 shares with a par value of \$7.00 per share as of December 31, 2000. The total common stock outstanding at December 31, 2000, was 359,526 shares, including 51,063 shares of treasury stock held. The articles of incorporation were amended as of April 17, 2000, to increase the par value of the common stock from \$3.00 to \$7.00 per share. The amendment was approved by the Utah Insurance Department on April 25, 2000, in accordance with UCA Section 31A-5-219.

UCA Subsection 31A-1-301(19) states "There is a rebuttable presumption of control in a person who directly or indirectly owns, controls, holds with power to vote, or holds proxies to vote 10% or more of the voting securities of another person." Earl L. Tate, owner of RAVAL Investment Company, and E. M. Grimm II, owner or beneficial owner of Analine Management Company, were both controlling persons of the Company in accordance with the definition stated in UCA Subsection 31A-1-301(19). These individuals were also directors and officers of the Company.

**Dividends to Shareholders**

The board of directors approved shareholder dividend distributions during the period of this examination as follows:

<u>Year Paid</u>	<u>Rate Per Share</u>	<u>Amount Paid</u>
1998	\$1.10	\$342,170
1999	\$1.25	\$388,823
2000	\$1.25	\$386,701

There were no extraordinary dividends declared or paid during the examination period.

### **Management**

Management and control of the Company as of December 31, 2000, were vested in its board of directors whose members were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliations</u>
E. LaVar Tate Tooele, Utah	Chairman of the Board - Sentinel Security Life Insurance Company
Alva R. Wing Lehi, Utah	Retired Funeral Director Vice President - Sentinel Security Life Insurance Company
Clyde J. Allen Tooele, Utah	Manager - Consolidated Finance Corporation
Thomas W. Bartlett, CLU Salt Lake City, Utah	President - Sentinel Security Life Insurance Company
Earl L. Tate Tooele, Utah	Secretary - Sentinel Security Life Insurance Company Owner - Raval Investment Company and Tate Mortuary
Charles W. Lindquist Ogden, Utah	Funeral Director
Harold B. Felt Brigham City, Utah	Vice President - Sentinel Security Life Insurance Company
Vaughn C. Soffe Murray, Utah	Treasurer - Sentinel Security Life Insurance Company
E. M. Grimm, II Ogden, Utah	President - Analine Management Company
Fred G. Cheney Salt Lake City, Utah	Vice President and Chief Financial Officer - Sentinel Security Life Insurance Company
Lenard A. Wing Lehi, Utah	Owner - Wing Mortuary, Inc.
Richard E. Felt Brigham City, Utah	Teacher - Box Elder Board of Education City Council Member - Brigham City, Utah

Mr. E. LaVar Tate resigned as chairman of the board on April 16, 2001, subsequent to the period of examination, and was replaced in an election of the board by Mr. Alva R. Wing.

Officers were elected annually by the board of directors. Those serving as of December 31, 2000, were as follows:

<u>Position</u>	<u>Name</u>
Chairman of the Board	E. LaVar Tate
President and Chief Executive Officer	Thomas W. Bartlett
Vice President and Chief Financial Officer	Fred G. Cheney
Vice President	Harold B. Felt
Vice President	Alva R. Wing
Secretary	Earl L. Tate
Treasurer	Vaughn C. Soffe

An investment committee, the only active committee elected by the board of directors, reported to the board of directors at most of their monthly meetings. Clyde J. Allen, Harold B. Felt, and Vaughn C. Soffe, directors, were the members of this committee as of December 31, 2000.

The Company had no audit committee as required by UCA Subsection 31A-5-412(2)(a).

#### **Conflict of Interest**

The Company had an established written procedure for disclosure to its board of directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which was in or was likely to conflict with the official duties of such person. Written disclosures were required when changes occurred; annual disclosures were not required.

#### **Corporate Records**

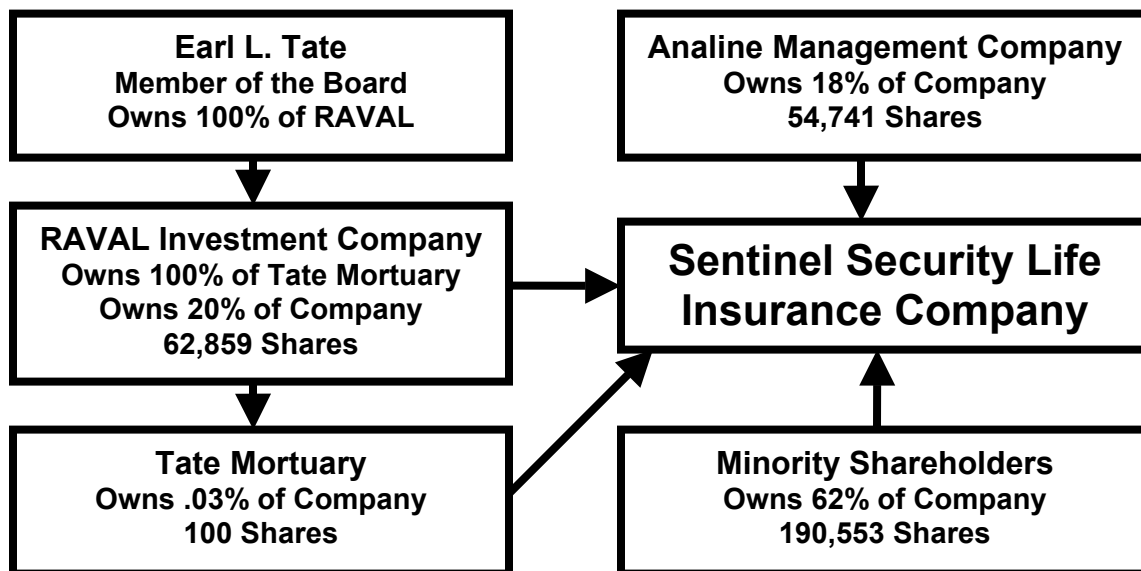
A review of the minutes of the board of directors and stockholders meetings revealed conformity with the requirements of the articles of incorporation concerning matters covered and authorizations made. The minutes approved and supported Company transactions. The previous examination report was distributed to the board of directors.

#### **Surplus Debentures**

The Company did not have any surplus debentures outstanding as of December 31, 2000.

#### **Affiliated Companies**

The following chart describes the Company's relationships with its affiliates.



The Company had no ownership interest in affiliated companies.

RAVAL Investment Company provided the Company with investment advisory services under an affiliate agreement. Either party could terminate the agreement upon 30 days notice.

No other affiliate agreements were known to exist or provided the examination upon request.

### **Fidelity Bond and Other Insurance**

The Company had fidelity bond coverage with a limit of liability of \$250,000. The NAIC minimum amount of coverage as determined in accordance with the NAIC Examiners Handbook indicated the Company should have minimum coverage of \$250,000.

The Company had coverage on its home office, office contents, liability, personal injury and medical expense.

### **Pension, Stock Ownership, and Insurance Plans**

#### **Profit Sharing Plan / 401K Plan**

The Company provided a profit sharing plan for qualifying employees. The Company had an adoption agreement with a local bank whereby the bank served as trustee of the employee profit sharing plan. The plan and related trust or custodial account, according to an Internal Revenue Service letter, qualified under Section 401 of the Internal Revenue Code.

#### **Deferred Compensation Plan**

The board of directors authorized a deferred compensation plan for management employees of the Company as of January 1, 1978. This plan had two active participants. The Company accrued a liability of \$695,117 as of December 31, 2000.

#### **Group Life and Health Insurance**

The Company provided full-time employees with group life and medical expense benefits. Employees were eligible after the first month of full-time employment. The benefits were

provided to employees on a non-contributory basis. Optional dependent coverage for hospital, surgical, and major medical benefits on a partial contributory basis was also offered.

### **Statutory and Special Deposits**

The deposits were held by the following entities as of December 31, 2000:

<b><u>State</u></b>	<b><u>Type of Security</u></b>	<b><u>Par Value</u></b>	<b><u>Market Value</u></b>
Utah Insurance Department	Bonds	\$2,050,000	\$1,826,419
New Mexico Insurance Department	CDs	<u>100,000</u>	<u>100,000</u>
Totals		\$2,150,000	\$1,926,419

Pursuant to UCA Section 31A-4-105, the Company was required to maintain a deposit equal to its minimum capital requirement. UCA Subsection 31A-5-211(2) defined its minimum capital requirement as \$400,000. The deposit was maintained for the benefit of all policyholders. The additional deposit placed through Utah was done so to satisfy the requirements of the State of Hawaii. The deposit with the State of New Mexico was for protection of New Mexico policyholders.

### **Insurance Products and Related Practices**

#### **Policy Forms and Underwriting**

The Company issued ordinary life plans of insurance consisting of single premium, 10 and 20 pay life, whole life and increasing death benefit policies. Most policies in force as of yearend 2000 were under \$10,000 in face value and were issued on a non-medical basis. Physical examinations may have been required depending on the age of the applicant and the amount of insurance applied for.

#### **Territory and Plan of Operation**

The Company was licensed to conduct insurance sales in the following states:

Arizona	Idaho	Nevada	South Dakota
California	Iowa	New Mexico	Utah
Colorado	Montana	North Dakota	Washington
Hawaii	Nebraska	Oregon	Wyoming

Sales by contracted agents were under the direction of an employee agency director.

#### **Advertising and Sales Material**

The Company primarily used direct mail and point of sale brochures in its sales and advertising effort. A comparison of advertising materials used and the related policy forms did not reveal any significant exceptions.

### **Treatment of Policyholders**

A review of various reports from the NAIC complaints database and Utah Insurance Department consumer complaint files revealed no significant issues or any trends of policyholder mistreatment. A complaint log is maintained, although complaints were minimal during the examination period.

## **REINSURANCE**

### **Assumed**

The Company reinsured a portion of the group term coverage provided the University of Utah under a master policy issued by the Beneficial Life Insurance Company. The Company's proportionate share totaled \$38,849,320 inforce as of yearend 2000.

### **Ceded**

As of December 31, 2000, the Company reinsured its life insurance business under an agreement which provided automatic yearly renewable term life reinsurance on standard and substandard lives between the ages of 0 through 75 inclusively up to a maximum of 400% of the Company's retention. It included provisions for waiver of premium and for facultative reinsurance.

The Company's retention limits under the automatic yearly renewable term life agreement were as follows:

<b><u>Ages</u></b>	<b><u>Standard</u></b>	<b><u>Substandard Tables 1 - 3</u></b>	<b><u>Substandard Tables 4 - 5</u></b>	<b><u>Substandard Tables 6 - 16</u></b>
0 - 75	\$15,000	\$15,000	\$12,000	\$5,000 or 50% of the risk whichever is lower

Another agreement with the same reinsurer provided for reinsurance on accidental death benefits under a bulk agreement with a retention on any covered accidental death benefit of \$15,000.

## **Accounts and Records**

As of December 31, 2000, the Company's accounting system consisted of a general ledger, registers, statistical and other records maintained primarily on information systems equipment and software. An IBM AS/400 minicomputer was utilized in addition to video display terminals and personal computers emulating video display terminals.

A general ledger trial balance was taken as of December 31, 2000, and was reconciled to the Company's yearend 2000 annual statement. General ledger accounts for other years covered in the examination period were reconciled to the related annual statement accounts as deemed necessary.

## **Financial Statements**

The following financial statements are included in this report:

Balance Sheet as of December 31, 2000

Summary of Operations for the Year Ending December 31, 2000

Capital and Surplus Account - Five Year Period Ending December 31, 2000

**The notes to financial statements are an integral  
part of the financial statements.**

**Sentinel Security Life Insurance Company  
Balance Sheet as of December 31, 2000**

**Assets**

<b><u>Account Description</u></b>	<b><u>Per Exam</u></b>	<b><u>Note*</u></b>
Bonds	\$22,012,360	
Preferred stocks	6,677,976	
Common stocks	10,740,804	(1)
Mortgage loans on real estate	3,038,710	
Real estate (properties occupied by the company)	126,608	
Real estate (investment real estate)	40,271	
Policy loans	736,849	
Cash and short term investments	1,041,911	
Electronic data processing equipment	333	
Life insurance premiums and annuity considerations deferred and uncollected	988,785	
Investment income due and accrued	682,651	
Other assets nonadmitted	- 0 -	
Aggregate write-ins for other than invested assets	<u>1</u>	
Total assets (per exam)	<u>\$46,087,259</u>	

**\* Refer to Notes to Financial Statements**

**Sentinel Security Life Insurance Company**  
**Balance Sheet as of December 31, 2000**

**Liabilities, Capital and Surplus**

<b><u>Description</u></b>	<b><u>Per Exam</u></b>	<b><u>Note*</u></b>
Aggregate reserve for life policies and contracts	\$22,682,042	
Policy and contract claims (life)	213,234	
Policyholders' dividend and coupon accumulations	268,640	
Dividends apportioned for payment to December 31, 2001	24,000	
Coupons and similar benefits	1,200	
Premiums and annuity considerations received in advance	20,568	
Interest maintenance reserve	254,465	
General expenses due or accrued	98,019	
Taxes, licenses and fees due or accrued	27,054	
Unearned investment income	13,211	
Amounts withheld or retained by company as agent or trustee	97,744	
Amounts held for agents' account	74,474	
Remittances and items not allocated	4,628	
Liability for benefits for employees and agents if not included above	695,117	
Asset valuation reserve	<u>3,403,806</u>	
Total liabilities	<u>27,878,202</u>	
Common capital stock	2,516,685	
Gross paid in and contributed surplus	- 0 -	
Unassigned funds (surplus)	16,227,890	
Less treasury stock, at cost	<u>535,518</u>	
Total capital and surplus	<u>18,209,057</u>	
Total liabilities, capital and surplus	<u>\$46,087,259</u>	

**\* Refer to Notes to Financial Statements**

**Sentinel Security Life Insurance Company**  
**Summary of Operations for the Year Ending December 31, 2000**

<u>Description</u>	<u>Per Exam</u>
Premiums and annuity considerations	\$4,415,499
Considerations for supplementary contracts without life contingencies and dividend accumulations	18,383
Coupons left to accumulate at interest	1,117
Net investment income	3,063,113
Amortization of interest maintenance reserve	19,923
Aggregate write-ins for miscellaneous income	<u>10,553</u>
Total	<u>7,528,588</u>
Death benefits	1,902,833
Matured endowments	17,971
Annuity benefits	954
Disability benefits and benefits under accident and health policies	1,359
Coupons, guaranteed annual pure endowments and similar benefits	1,217
Surrender benefits and other fund withdrawals	338,609
Interest on policy or contract funds	4,260
Payments on supplementary contracts without life contingencies and of dividend accumulations	8,438
Increase in aggregate reserves for life and accident and health policies and contracts	362,236
Increase in reserve for supplementary contracts without life contingencies and for dividend and coupon accumulations	<u>11,388</u>
Total	<u>2,649,265</u>
Commissions on premiums, annuity considerations and deposit-type funds	1,016,441
General insurance expenses	1,826,296
Insurance taxes, licenses and fees, excluding federal income taxes	167,689
Increase in loading on and cost of collection in excess of loading on deferred and uncollected premiums	<u>100,365</u>
Total	<u>5,760,056</u>
Net gain from operations before dividends to policyholders and federal income taxes	1,768,532
Dividends to policyholders	<u>24,844</u>
Net gain from operations after dividends to policyholders and before federal income taxes	1,743,688
Federal income taxes incurred	<u>161,508</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	1,582,180
Net realized capital gains or (losses) less capital gains tax and transferred to the IMR	<u>61,629</u>
Net income	<u><u>\$1,643,809</u></u>

**Sentinel Security Life Insurance Company**  
**Capital and Surplus Account**  
**Three Year Period Ending December 31, 2000**

<b><u>Account Description</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>
Capital and surplus, December 31, prior year	<u>\$14,560,167</u>	<u>\$15,873,138</u>	<u>\$17,041,434</u>
Net income	1,644,280	1,507,009	1,643,809
Change in net unrealized capital gains or (losses)	472,171	-89,690	295,234
Change in not-admitted assets and related items	-45,750	8,675	-51,203
Change in asset valuation reserve	-159,810	31,254	-277,140
Change in treasury stock	-226	-271	-91,385
Capital changes (paid in)	- 0 -	- 0 -	1,438,106
Surplus adjustment (paid in)	- 0 -	- 0 -	-201,229
Dividends to stockholders	-342,170	-388,823	-386,701
Aggregate write-ins for gains and losses in surplus			
Company owned policy	-33,311	- 0 -	- 0 -
Employee benefit adjustment	-222,213	100,149	35,010
Miscellaneous	- 0 -	-7	-1
Excess of paid in capital over paid in surplus due to increase in par value	<u>- 0 -</u>	<u>- 0 -</u>	<u>-1,236,877</u>
Net change in capital and surplus for the year	<u>1,312,971</u>	<u>1,168,296</u>	<u>1,167,623</u>
Capital and surplus, December 31, current year	<u>\$15,873,138</u>	<u>\$17,041,434</u>	<u>\$18,209,057</u>

## **Notes to Financial Statements**

### **(1) Common Stocks**

**\$10,740,804**

The Company's investments in common stocks exceeded the limit established by UCA Section 31A-18-106(1)(f) by \$2,322,133. However, the Company was deemed exempt from this limitation in accordance with UCA Section 31A-18-108 which allows the Company to "...invest in a manner inconsistent with the limitations of Section 31A-18-106..." to the extent of its excess surplus. Excess surplus was determined to be \$13,524,600.

### **(2) Capital and Surplus**

**\$18,209,057**

The Company's minimum capital requirement was \$400,000 pursuant to UCA Section 31A-5-211(2)(a). Its total adjusted capital was \$21,624,863 and authorized control level risk based capital was \$1,926,043 pursuant to UCA Part 31A-17-VI.

Pursuant to UCA Section 31A-18-108, the insurer may, to the extent of its "excess surplus", invest in a manner inconsistent with certain guidelines specified in UCA Section 31A-18-106. The Company's excess surplus as of the examination date was determined to be \$13,524,600. Assets admitted solely in consideration of the Company's excess surplus amounted to \$2,322,133.

## **Summary**

This report contained the following comments deemed to be of significance:

Audit Committee - The Company had no audit committee as required by UCA Subsection 31A-5-412(2)(a). This was also disclosed in the prior examination. (**Management**)

Capital and Surplus - Capital and surplus was determined by this examination to be \$18,209,057, its total adjusted capital was \$21,624,863 and authorized control level risk based capital was \$1,926,043. (**(2) Capital and Surplus**)

## **Conclusion**

The courteous and prompt assistance and cooperation extended by officers and employees of the Company during the course of this examination is acknowledged.

Respectfully submitted,

John (Richard) Johnson, CFE, CISA  
Senior Financial Examiner  
Utah Insurance Department